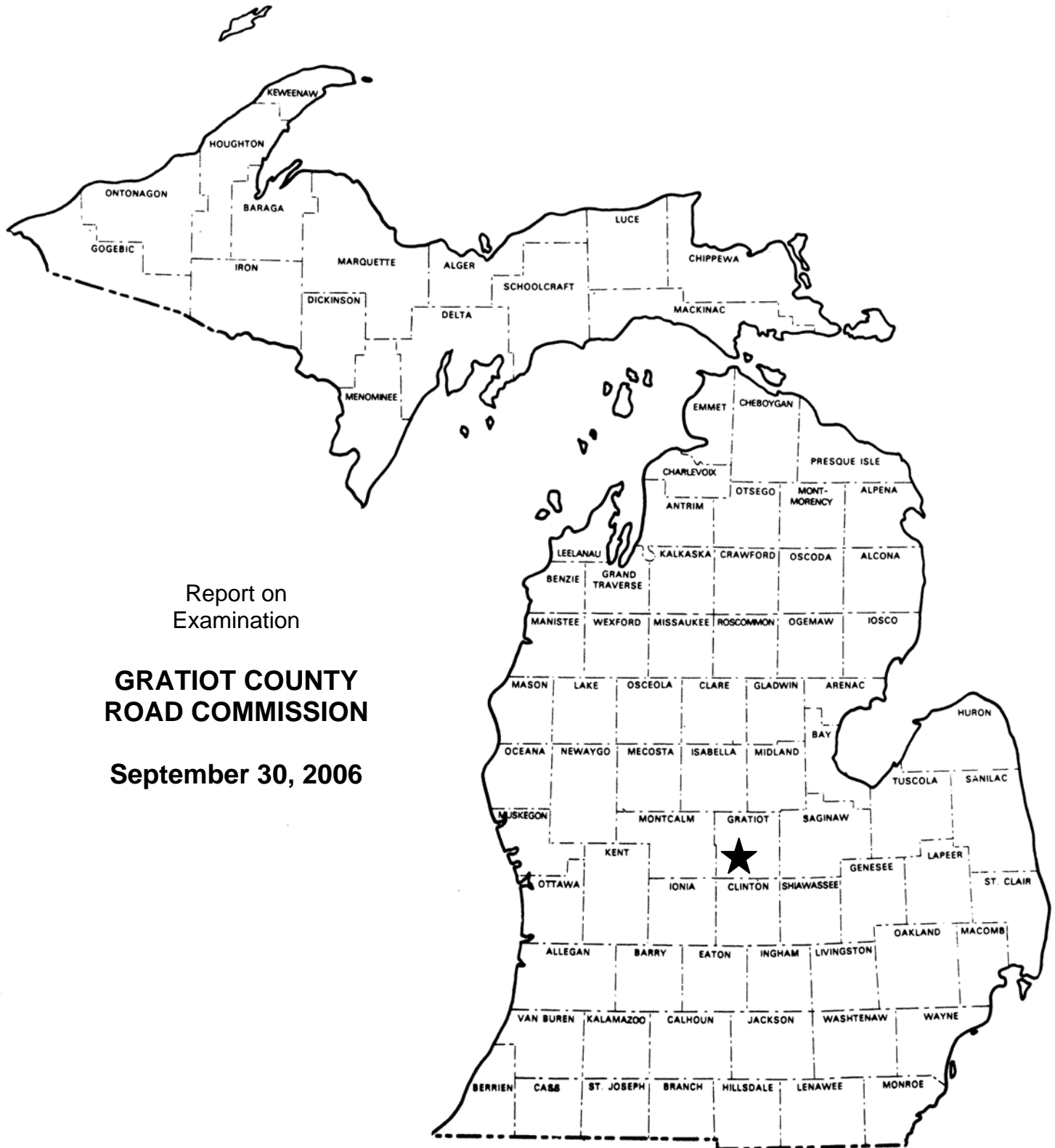


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**GRATIOT COUNTY
ROAD COMMISSION**

September 30, 2006

GRATIOT COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Leslie Whitford
Chairman

Denis Netzley
Vice-Chairman

Wesley O. Federspiel
Member

Mark Craft
Engineer/Manager &
Superintendent-County Highway Engineer

Thomas J. Mayan
Assistant County Highway Engineer

Betty Schumacher
Finance Director/Clerk

COUNTY POPULATION--2000
42,285

STATE EQUALIZED VALUATION--2006
\$1,132,600,298



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 22, 2006

Gratiot County Road Commission
Board of County Road Commissioners
200 Commerce Drive
Ithaca, Michigan 48847

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, Michigan, as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gratiot County Road Commission as of September 30, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006 on our consideration of the Gratiot County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with Government Auditing Standards and should be considered in assessing the results of the audit.

The Management's Discussion and Analysis on pages 1 through 6 and budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprises the Gratiot County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

GRATIOT COUNTY ROAD COMMISSION

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GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Gratiot County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Report the Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets decreased approximately .75% or \$209,920 from \$27,844,173 (which includes a restatement decreasing net capital assets by \$2,027,115) to \$27,634,253 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$97,914 (or 5.73%). The investment in capital assets-net of related debt decreased by \$112,006.

Net assets as of year ended September 30, 2006 are as follows:

	2005	2006	Variance Increase (Decrease)	%
Current and Other Assets	\$ 2,679,091	\$ 2,475,533	\$ (203,558)	-7.60%
Net Capital Assets	26,134,584	26,022,578	(112,006)	-0.43%
Total Assets	28,813,675	28,498,111	(315,564)	-1.10%
Current Liabilities	390,451	353,350	(37,101)	-9.50%
Long-Term Liabilities	579,051	510,508	(68,543)	-11.84%
Total Liabilities	969,502	863,858	(105,644)	-10.90%
Net Assets				
Invested in Capital Assets--				
Net of Related Debt	26,134,584	26,022,578	(112,006)	-0.43%
Restricted	1,709,589	1,611,675	(97,914)	-5.73%
Total Net Assets	\$ 27,844,173	\$ 27,634,253	\$ (209,920)	-0.75%

GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2006 follows:

	<u>Governmental Activities for 2005</u>	<u>Governmental Activities for 2006</u>	<u>Increase (Decrease)</u>
Program Revenue			
License and Permits	\$ 32,732	\$ 26,740	\$ (5,992)
Federal Grants	1,288,240	600,947	(687,293)
State Grants	4,426,942	4,349,010	(77,932)
Contributions From Local Units	763,232	862,738	99,506
Charges for Services	1,328,726	728,137	(600,589)
Investment Earnings	34,038	55,725	21,687
Reimbursements	25,095	61,748	36,653
General Revenue			
Insurance Recoveries	7,709		(7,709)
Gain on Equipment Disposal	23,809	23,375	(434)
Loss on Infrastructure Removal	(154,267)		154,267
Other Infrastructure Additions	<u>29,216</u>	<u> </u>	<u>(29,216)</u>
Total Revenue	<u>7,805,472</u>	<u>6,708,420</u>	<u>(1,097,052)</u>
Expenses			
Primary Road			
Routine and Preventive Maintenance	1,126,168	1,172,830	46,662
Primary Road Structures Maintenance	4,655	4,923	
Local Road			268
Routine and Preventive Maintenance	2,167,553	2,281,839	114,286
Local Road Structures Maintenance		9,476	9,476
State Trunkline Maintenance	879,348	711,619	(167,729)
Net Equipment Expense	111,333	81,211	(30,122)
Net Administrative Expense	405,279	474,874	69,595
Non-Road Project	5,234	85,528	80,294
Infrastructure Depreciation	1,993,061	2,113,840	120,779
Compensated Absences	<u>43,669</u>	<u>(17,800)</u>	<u>(61,469)</u>
Total Expenses	<u>6,736,300</u>	<u>6,918,340</u>	<u>182,040</u>
Change in Net Assets	<u><u>\$1,069,172</u></u>	<u><u>\$ (209,920)</u></u>	<u><u>\$(1,279,092)</u></u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

GRATIOT COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2006, the fund balance of the General Operations Fund decreased \$115,714 as compared to a decrease of \$118,258 in the fund balance for the year ended September 30, 2005. Total operating revenues were \$6,708,419, a decrease of \$1,222,104 as compared to last year. This change in revenues resulted primarily from a decrease in Federal monies, MTF funds, and state trunkline revenue.

Total expenditures were \$6,824,134, a decrease of \$1,224,649 as compared to last year. This change in expenditures is primarily due to the decrease in primary preservation/structural improvements, decrease in state trunkline expenditures, and a decrease in capital outlay for 2006.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2006 was less than the actual revenue by \$55,197. This was due, in large part, to the MTF being higher (\$59,000), more state maintenance revenue than expected (\$125,928), less Federal money received (\$256,166), more township contributions than expected (\$66,100), more interest earned (\$35,725), a higher gain on equipment disposal than anticipated (\$13,874), less permit/weight fees than expected (\$4,260), and higher other contributions than anticipated (\$11,698).

The Road Commission's original expenditures were projected at \$8,168,225, while actual expenditures were \$6,831,159. This resulted in total expenditures being under budget by \$1,337,066. This was primarily due to the Primary Road Expense being overstated by \$600,434, Net Capital Outlay being overstated by \$1,188,789 (the depreciation was originally budgeted as a debit of \$550,000 and should have been budgeted as a credit of \$550,000), Local Road Expense being understated by \$593,350, Equipment Expense (Activities 510-511-512) being understated by approximately \$803,000, the State Maintenance and Non-Maintenance being understated by \$111,619, Other Non-Road Projects being understated by \$36,528, and Net Administrative Expense being understated by \$283,600.

GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2006 (year end), the Road Commission had \$26,022,578 invested in capital assets as follows:

	2005	2006	Total Percentage Change 2005-2006
Capital Assets Not Being Depreciated			
Land	\$ 116,903	\$ 116,903	0.00%
Infrastructure--Land Improvements	222,774	424,720	90.65%
Land/Right-of-Way	3,086	3,086	0.00%
Subtotal	<u>342,763</u>	<u>544,709</u>	<u>58.92%</u>
Capital Assets Being Depreciated			
Land Improvements	59,959	59,959	0.00%
Buildings	2,213,570	2,213,570	0.00%
Equipment (Rd, Shop, Engr, Office)	5,530,811	5,833,020	5.46%
Yard and Storage	16,573	16,573	0.00%
Infrastructure	37,111,094	37,713,372	1.62%
Subtotal	<u>44,932,007</u>	<u>45,836,494</u>	<u>2.01%</u>
Total Capital Assets	<u>45,274,770</u>	<u>46,381,203</u>	<u>2.44%</u>
Total Accumulated Depreciation	<u>(19,140,186)</u>	<u>(20,358,625)</u>	<u>6.37%</u>
Total Net Capital Assets	<u><u>\$ 26,134,584</u></u>	<u><u>\$ 26,022,578</u></u>	<u><u>-0.43%</u></u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,684,743. The infrastructure recorded, during 2006, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 17,973
Various Resurfacing Projects and Related Land/Right-of-Way	1,828,455
Land and Improvements	201,946
Trucks/Equipment	602,166
Salt Shed and Building	-
Administrative, Engineering and Shop Equipment	<u>34,203</u>
Total Additions	<u><u>\$2,684,743</u></u>

GRATIOT COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

There were no installment purchase agreements entered into during 2006. All the equipment was acquired with Road Commission funds.

During 2006, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$334,221, related depreciation of \$190,749 and net book value of \$143,472.

Debt

The Road Commission currently experiences a relatively debt free status. Bonds issued in prior years have been paid off and retired. The Road Commission currently has long-term debt in the amount of \$312,223, a decrease of \$17,800 from the prior year, which represents compensated absences payable at September 30, 2006.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derived approximately 64.83% of its revenues from the fuel tax collected in 2006.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Gratiot County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Gratiot County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Gratiot County Road Commission administrative offices at 200 Commerce Drive, Ithaca, MI 48847.

GRATIOT COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A

ASSETS

Cash	\$ 1,245,800
Investments	
Accounts Receivable	
Sundry Accounts	16,944
State--Trunkline Maintenance	29,800
Michigan Transportation Fund	730,500
State--Other	68,560
Due From Cities/Villages	49,602
Due on County Road Agreements	40,902
Inventories	
Road Materials	143,360
Equipment Parts and Materials	150,065
Capital Assets (Net of Accumulated Depreciation)	<u>26,022,578</u>
Total Assets	<u>28,498,111</u>

LIABILITIES

Current Liabilities	
Accounts Payable	107,416
Due to State of Michigan	209,563
Accrued Liabilities	36,371
Noncurrent Liabilities	
Advances From State	198,285
Vested Employee Benefits Payable	<u>312,223</u>
Total Liabilities	<u>863,858</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	26,022,578
Restricted for County Roads	<u>1,611,675</u>
Total Net Assets	<u><u>\$ 27,634,253</u></u>

The Notes to Financial Statements are an integral part of this statement.

GRATIOT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B

Program Expenses	
Primary Road	
Routine and Preventive Maintenance	\$ 1,177,753
Local Road	
Routine and Preventive Maintenance	2,291,315
State Trunkline Maintenance	711,619
Net Equipment Expense	81,211
Net Administrative Expense	474,874
Infrastructure Depreciation	2,113,840
Compensated Absences	(17,800)
Other	85,528
	<hr/>
Total Program Expenses	6,918,340
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	26,740
Charges for Services	720,855
Reimbursements	50
Contributions From Local Units	53,106
Other Contributions	61,698
Operating Grants and Contributions	
Michigan Transportation Funds	4,349,010
Investment Earnings	55,725
Capital Grants and Contributions	
Federal Grants	600,946
State Grants	7,283
Contributions From Local Units	809,632
	<hr/>
Total Program Revenue	6,685,045
	<hr/>
Net Program Revenue	(233,295)
	<hr/>
General Revenue	
Gain on Equipment Disposal	23,375
	<hr/>
Total General Revenue	23,375
	<hr/>
Change in Net Assets	(209,920)
	<hr/>
Net Assets	
Beginning of Year	29,871,227
Restatement to Beginning of Year (See Note F)	(2,027,054)
	<hr/>
Restated Beginning of Year	27,844,173
	<hr/>
End of Year	\$ 27,634,253
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

**GRATIOT COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2006**

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 1,245,800
Accounts Receivable	
Due From Cities	49,555
Due From Villages	47
State Trunkline Maintenance	29,800
Michigan Transportation Fund	730,500
State Department of Transportation--Other	68,560
Due on County Road Agreements	40,902
Sundry Accounts	16,944
Inventories	
Road Materials	143,360
Equipment Parts and Materials	<u>150,065</u>
Total Assets	<u><u>\$ 2,475,533</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 107,416
Accrued Liabilities	36,371
Due to State of Michigan	209,563
Advances From State	<u>198,285</u>
Total Liabilities	<u>551,635</u>
Fund Equities	
Fund Balance	
Reserve for Inventory	293,425
Unreserved and Undesignated	<u>1,630,473</u>
Total Fund Equities	<u>1,923,898</u>
Total Liabilities and Fund Equities	<u><u>\$ 2,475,533</u></u>

The Notes to Financial Statements are an integral part of this statement.

**GRATIOT COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,923,898
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,022,578
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(312,223)</u>
--	------------------

Net Assets of Governmental Activities	<u><u>\$27,634,253</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

GRATIOT COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended September 30, 2006

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 26,740
Federal Aid	600,946
State Aid	4,356,293
Contributions From Local Units	862,738
Charges for Services	719,024
Interest and Rents	57,555
Other Revenue	<u>85,123</u>
Total Revenues	<u>6,708,419</u>
Expenditures	
Public Works	6,187,765
Capital Outlay	<u>636,369</u>
Total Expenditures	<u>6,824,134</u>
Excess of Revenues Over (Under) Expenditures	<u>(115,715)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(115,715)
Fund Balance--October 1, 2005	<u>2,039,613</u>
Fund Balance--September 30, 2006	<u><u>\$ 1,923,898</u></u>

The Notes to Financial Statements are an integral part of this statement.

GRATIOT COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ (115,715)
--	--------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

(112,005)

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)

17,800

Change in Net Assets of Governmental Activities

\$ (209,920)

The Notes to Financial Statements are an integral part of this statement.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Gratiot County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Gratiot County Road Commission.

NOTE A--REPORTING ENTITY

The Gratiot County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Gratiot County Road Commission, a discretely presented component unit of Gratiot County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Gratiot County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB Statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91 et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

At year end (and during the year), the Road Commission did not have any investments, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 1,245,600
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$ 1,245,800</u>

The bank balance of the Road Commission's deposits is \$1,454,519, of which \$300,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2006. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to credit risk. The policy does contain provisions to limit the Road Commission's exposure to concentration of credit risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

NOTE E--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Gratiot County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/05	Additions	Deductions	Account Balances 09/30/06
Capital Assets Not Being Depreciated				
Land	\$ 116,903			\$ 116,903
Infrastructure--Land/Right-of-Way	3,086			3,086
Infrastructure--Land Improvements	222,774	\$ 201,946		424,720
Subtotal	342,763	201,946	\$ -	544,709
Capital Assets Being Depreciated				
Land Improvements	59,959			59,959
Buildings	2,213,570			2,213,570
Road Equipment	5,109,396	602,166	334,221	5,377,341
Shop Equipment	112,363	26,900		139,263
Office Equipment	216,149	5,231		221,380
Engineer's Equipment	92,964	2,072		95,036
Yard and Storage	16,573			16,573
Infrastructure--Bridges	14,716,931	17,973		14,734,904
Infrastructure--Roads	22,389,605	1,828,455	1,244,150	22,973,910
Infrastructure--Traffic Signals	4,558			4,558
Total	44,932,068	2,482,797	1,578,371	45,836,494
Less Accumulated Depreciation				
Land Improvements	36,567	1,723		38,290
Building	554,101	38,541		592,642
Road Equipment (See Note 1 Below)	4,079,875	465,769	190,749	4,354,895
Shop Equipment	79,819	8,832		88,651
Office Equipment	148,751	19,213		167,964
Engineer's Equipment	79,622	4,531		84,153
Yard and Storage	11,670	828		12,498
Infrastructure--Bridges	4,643,574	304,940		4,948,514
Infrastructure--Roads (See Note 1 Below)	9,502,076	1,808,827	1,244,150	10,066,753
Infrastructure--Traffic Signals	4,192	73		4,265
Total	19,140,247	2,653,277	1,434,899	20,358,625
Net Capital Assets Being Depreciated	25,791,821	2,482,797	2,796,749	25,477,869
Total Net Capital Assets	\$ 26,134,584	\$ 2,684,743	\$ 2,796,749	\$ 26,022,578

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Restatement to Beginning Net Capital Assets

Note 1: The October 1, 2005 account balance for Accumulated Depreciation for Road Equipment and Infrastructure-Roads includes a \$2,027,115 adjustment to correct a prior year error in recording depreciation expense. The adjustment restates the October 1, 2005 account balances as follows:

	09/30/05 Balance	Adjustment	Restated 09/30/05 Balance
Accumulated Deprecation			
Infrastructure--Bridges	4,339,622	303,952	4,643,574
Infrastructure--Roads	7,778,987	1,723,089	9,502,076
Infrastrcture--Traffic Signals	4,118	74	4,192
	<u>12,122,727</u>	<u>2,027,115</u>	<u>14,149,842</u>
Net Capital Assets	<u>\$ 28,161,699</u>	<u>\$ (2,027,115)</u>	<u>\$ 26,134,584</u>

Depreciation Expense

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 465,769
Indirect Equipment	
Shop Building	25,169
Storage Building	829
Shop Equipment	8,832
State Salt Shed	8,929
Net Administrative Expense	
Buildings	4,442
Office Equipment and Furniture	19,213
Engineers Equipment	4,531
Land Improvements	1,723
Infrastructure	<u>2,113,840</u>
Total Depreciation Expense	<u>\$ 2,653,277</u>

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balances 10/01/05	Additions (Reductions)	Balances 09/30/06
Vested Employee Benefits			
Vacation Benefits	\$ 156,271	\$ (1,146)	\$ 155,125
Sick Leave Benefits	173,752	(16,654)	157,098
Total	<u>\$ 330,023</u>	<u>\$ (17,800)</u>	<u>\$ 312,223</u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee are credited to his/her banks monthly, as determined on their anniversary date and years of service. Maximum allowable accumulations are 450 hours for salaried employees and 320 hours for all other full time Road Commission employees. Upon separation from employment, 100% of accumulated vacation leave is payable to employees.

Sick Leave Benefits

The Road Commission's employment policies provide that every regular employee shall accumulate sick leave with pay at the rate of 8 hours per month, not to exceed 96 hours per year, with unlimited accumulation for salaried employees and a maximum accumulation of 1,040 hours (130 days) for union employees. Any employee, upon reaching an accumulation of 1,040 hours (130 days) of unused sick time, shall be paid for all additional accrual of sick time at 75% of the employee's current rate on the first pay in the month of December. An employee with a minimum of 3 years service and unused sick leave in excess of 240 hours (thirty days), may opt to sell back to the Road Commission up to 160 hours (20 days) of sick leave annually at 1/2 of the employee's current rate provided their accumulation would not drop below 240 hours (30 days).

Upon death or retirement, union employees shall be paid 1/2 of his/her accumulated sick leave (with a maximum of 520 hours) at the employee's prevailing rate of pay at the time of the termination of employment. Upon death, retirement or termination, salaried employees shall receive a payment of sick leave days paid at their current pay scale, not to exceed 520 hours. Sick leave herein is recorded at 100% of maximum payable leave.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12(a)), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$50,111. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 9.3% for general employees and 5.7% for salaried employees, for the calendar year December 31, 2005, based on 2003 actuarial determination.

Annual Pension Cost

During the calendar year ended December 31, 2005, the Road Commission's contributions totaling \$134,457 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employees contributed \$50,111 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 82,268	100%	\$0
2004	128,685	100%	0
2005	134,457	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/2003	\$ 9,413,084	\$ 9,981,248	\$ 568,164	94%	\$ 1,533,716	37%
12/31/2004	9,665,886	10,337,470	671,584	94%	1,659,170	40%
12/31/2005	9,910,430	10,638,710	728,280	93%	1,657,109	44%

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT (Continued)

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

NOTE J--POST-EMPLOYMENT BENEFITS

The Road Commission agrees to pay the first \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. Two people qualified under this policy during the fiscal year ending September 30, 2006.

Effective August 1, 2003, the Road Commission agrees to pay the first \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2006.

Effective March 1, 2006, the Road Commission agrees to pay the first \$500 per month towards the hospitalization coverage premium for any **union** employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2006.

Effective February 1, 2006, the Road Commission agrees to pay the first \$350 per month towards the hospitalization coverage premium for any **salaried** employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2006.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$22,250 for hospitalization benefits during the fiscal year ended September 30, 2006.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2006, the Federal aid received and expended by the Road Commission was \$600,946 for contracted projects. The Road Commission neither received nor expended any Federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

NOTE L--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

GRATIOT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2006

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 31,000	\$ 26,500	\$ 26,740	\$ 240
Federal Aid				
Surface Transportation Program	355,754	212,264	409,011	196,747
Hazard Elimination Safety	160,000	380,765	185,422	(195,343)
Economic D Funds	341,358	6,510	6,513	3
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,565,000	2,545,000	2,548,439	3,439
Local Road	1,550,000	1,600,000	1,602,281	2,281
Primary Urban Road	140,000	154,996	158,447	3,451
Local Urban Road	25,000	29,000	29,843	843
Chemical Storage Facility	-	7,280	7,283	3
Contributions--Local Units				
Townships	796,636	862,737	862,738	1
Charges for Services				
State Trunkline Maintenance	600,000	604,959	622,016	17,057
State Trunkline--Other	-	96,625	89,603	(7,022)
Salvage Sales	6,000	7,400	7,405	5
Other	550,000	-	-	-
Interest and Rents				
Interest Earned	20,000	55,670	55,725	55
Rentals	-	1,829	1,830	1
Other Revenue				
Private Contributions	50,000	61,695	61,698	3
Reimbursements	-	50	50	-
Gain on Equipment Disposal	9,500	23,300	23,375	75
Total Revenue and Other Financing Sources	7,210,248	6,686,580	<u>\$6,708,419</u>	<u>\$ 21,839</u>
Fund Balance--October 1, 2005	<u>1,191,369</u>	<u>2,039,612</u>		
Total Budget	<u>\$ 8,401,617</u>	<u>\$8,726,192</u>		

GRATIOT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2006

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 2,200,000	\$ 1,477,127	\$1,279,771	\$ 197,356
Routine and Preventive Maintenance	750,000	1,175,000	1,172,830	2,170
Local Road				
Preservation/Structural Improvements	564,000	879,435	750,629	128,806
Routine and Preventive Maintenance	1,750,000	2,285,000	2,281,839	3,161
Primary Road Structure				
Preservation/Structural Improvements	111,475	46,270	8,518	37,752
Routine and Preventive Maintenance	5,000	5,000	4,923	77
Local Road Structure				
Preservation/Structural Improvements	144,050	114,442	9,456	104,986
Routine and Preventive Maintenance	-	9,500	9,476	24
State Trunkline Maintenance	600,000	625,000	622,016	2,984
State Maintenance--Other	-	89,605	89,603	2
Equipment Expense--Net	(730,000)	90,000		
Direct			\$ 932,422	
Indirect			431,441	
Operating			311,356	
Less: Equipment Rentals			<u>(1,602,937)</u>	17,718
Distributive Expenditures	1,300,000			
Administrative Expense--Net	198,300	486,085		
Administrative Expense			541,177	
Less: Handling Charges			(1,318)	
Overhead--State			(64,878)	
Purchase Discounts			<u>(107)</u>	11,211
Non-Road Projects	49,000	85,530	85,528	-
Capital Outlay--Net	1,226,400	(33,470)		
Capital Outlay			636,369	
Less: Depreciation Credits			(530,509)	
Equipment Retirements			<u>(143,471)</u>	4,141
Total Expenditures	8,168,225	7,334,524	<u>\$ 6,824,134</u>	<u>\$ 510,388</u>
Fund Balance--September 30, 2006	<u>233,392</u>	<u>1,391,668</u>		
Total Budget	<u>\$ 8,401,617</u>	<u>\$ 8,726,192</u>		

GRATIOT COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,340,357	\$ 2,515,298	\$ 852,764	\$ 6,708,419
Total Expenditures	2,699,301	3,338,106	786,727	6,824,134
Excess of Revenues Over (Under) Expenditures	641,056	(822,808)	66,037	(115,715)
Other Financing Sources (Uses)				
Optional Transfers	(831,627)	831,627		
Insurance Recovery			-	-
Total Other Financing Sources (Uses)	(831,627)	831,627	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(190,571)	8,819	66,037	(115,715)
Fund Balance--October 1, 2005	868,159	705,831	465,623	2,039,613
Fund Balance--September 30, 2006	\$ 677,588	\$ 714,650	\$ 531,660	\$ 1,923,898

GRATIOT COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended September 30, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits			\$ 26,740	\$ 26,740
Federal Aid				
Surface Transportation Program	\$ 409,011	-		409,011
Hazard Elimination	185,422			185,422
Economic D Funds	6,513			6,513
State Aid				
Michigan Transportation Fund				
Engineering	5,860	\$ 4,140		10,000
Allocation	2,548,439	1,602,281		4,150,720
Urban Roads	158,447	29,843		188,290
Chemical Storage Facility			7,283	7,283
Contributions--Local Units				
Townships		809,632	53,106	862,738
Charges for Services				
State Trunkline Maintenance			622,016	622,016
State Trunkline Nonmaintenance			89,603	89,603
Salvage Sales			7,405	7,405
Interest and Rents				
Interest Earned	23,719	19,284	12,722	55,725
Rentals			1,830	1,830
Other Revenue				
Private Contributions	2,946	50,118	8,634	61,698
Reimbursements	-	-	50	50
Gain on Equipment Disposal			23,375	23,375
Total Revenue and Other Financing Sources	\$ 3,340,357	\$ 2,515,298	\$ 852,764	\$ 6,708,419

GRATIOT COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,279,771			\$ 1,279,771
Routine and Preventive Maintenance	1,172,830			1,172,830
Local Road				
Preservation/Structural Improvements		\$ 750,629		750,629
Routine and Preventive Maintenance		2,281,839		2,281,839
Primary Road Structures				
Preservation/Structural Improvements	8,518			8,518
Routine and Preventive Maintenance	4,923			4,923
Local Road Structures				
Preservation/Structural Improvements		9,456		9,456
Routine and Preventive Maintenance		9,476		9,476
State Trunkline Maintenance			\$622,016	622,016
State Maintenance--Other			89,603	89,603
Equipment Expense--Net (Per Exhibit H)	21,012	41,129	10,141	72,282
Administrative Expense--Net (Per Exhibit H)	212,247	262,627		474,874
Non Road Projects			85,528	85,528
Capital Outlay--Net (Per Exhibit H)		(17,050)	(20,561)	(37,611)
Total Expenditures	\$ 2,699,301	\$ 3,338,106	\$ 786,727	\$ 6,824,134



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 22, 2006

Gratiot County Road Commission
Board of County Road Commissioners
200 Commerce Drive
Ithaca, Michigan 48847

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, as of and for the year ended September 30, 2006, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Gratiot County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Gratiot County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Gratiot County Road Commission in a separate letter dated November 22, 2006.

This report is intended solely for the information of the Gratiot County Board of Road Commissioners, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division